

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
Special Audit
June 1, 1995 Through February 29, 1996

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified

Our audit of the financial records of the Burlington Terrace Apartment Complex of the Housing Authority of Skagit County revealed at least \$18,304.52 was misappropriated by the apartment manager during the period June 1, 1995, through February 29, 1996. Accounting records were falsified in an attempt to conceal some of these losses. There were no federal funds involved in this case. These funds were misappropriated as described below.

Cash receipts from tenant payments made to the housing authority were taken by the apartment manager. After tenants dropped off payments in the drop box, the manager falsified the following entries in the billing records:

- a. Recorded the payment as being paid using a receipt number which was previously used for another transaction.
- b. Omitted and/or deleted past due amounts from the billing records but did not include any payment in the cash receipts journal and the bank deposit.
- c. Recorded the payment as being paid in the billing records but only included a portion of the payment in the cash receipts journal and the bank deposit.

In addition, we noted instances where payments identified as paid in other records (i.e. vacate reports) were never receipted, apartments identified as vacant were actually inhabited, and laundry revenues which should have been received were unaccounted for.

The apartment manager controlled all facets of the billing and cash receipt systems and received all funds paid to the apartment complex. The manager was no longer an employee of the housing authority at the time of our audit and was, therefore, unavailable to provide any explanation for the missing funds.

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer.

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district, who

- (1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or
- (3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or
- (4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, dike, drainage or irrigation district or the proper officer or authority empowered to demand and receive the same, any money received by him as such officer when it is a duty imposed upon by law to pay over and account for the same, shall be punished by imprisonment in the state penitentiary for not more than fifteen years.

The following internal control weaknesses allowed these misappropriations to occur and go undetected:

- a. There was an inadequate segregation of duties. All of the billing and receipting functions were the responsibility of one person, the apartment manager. In addition, there was no periodic management review of the work performed by the apartment manager which would accomplish the same objective as a segregation of duties between two or more employees.
- b. The apartment manager exercised almost complete control over the approval of new tenants as well as the corresponding rental contracts, reductions in rents, three day or vacate notices, and voluntary/involuntary vacate proceedings. Management did not periodically review the work performed by the apartment manager or ensure that appropriate safeguards were in place to reduce the likelihood of an abuse of power by anyone in this position.

We recommend the Housing Authority of Skagit County seek recovery of the misappropriated \$18,304.52 and related audit/investigation costs from the apartment manager and the housing authority's insurance bonding company. We further recommend the Washington State Office of the Attorney General and the Skagit County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

The apartment manager is covered under the Fidelity and Crime clause of the housing authority's insurance policy as follows:

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| Insurer: | Housing Authorities Risk Retention Pool (HARRP) |
| Type of Policy: | Fidelity and Crime |
| Policy Number: | No. 033-PLEAF |
| Dollar Amount: | \$100,000 (with a \$1,000 deductible provision) |
| Policy Period: | February 2, 1995, to February 2, 1996 |

We also recommend the housing authority review overall accounting controls over billings and cash receipts, correct the weaknesses outlined above, and implement an effective system of internal controls designed to ensure the protection of public assets.